The Real Estate TRENDS

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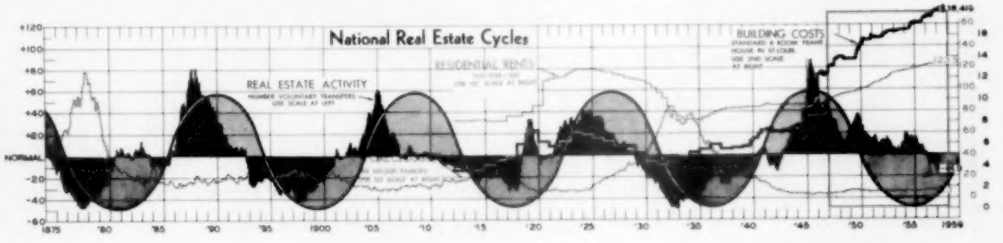
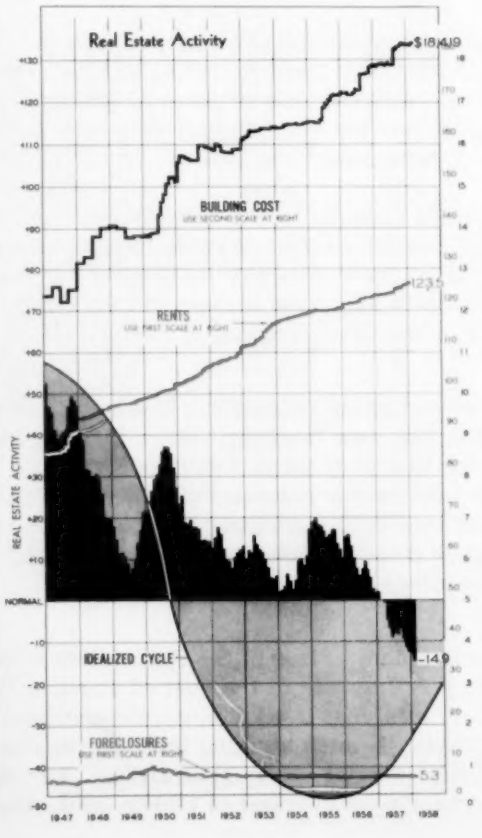
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS





SOME perspective on the readjustment period which has now started in real estate activity can be gotten from the long chart above and the enlarged section of this chart to the left. It should be emphasized again that real estate activity, as defined on this chart, is the number of voluntary transfers divided by the number of families, and charted as a percentage above or below the long-term normal.

The February figure, which is the latest available, showed real estate activity in the United States averaging 14.9% below normal.

In contrast to voluntary transfers, involuntary transfers (foreclosures) have shown practically no change in the past 7 years. This is surprising in that foreclosures in the past have generally risen as voluntary transfers dropped. While undoubtedly foreclosures will show some rise in the period ahead, the very small number to date would

seem to indicate that the readjustment, which has now been proceeding for a year, will not be too severe.

Residential rents have continued to rise, and at the present time are at a new all-time high. In relationship, however, to other commodities and services, residential rents are still low, with the expectation that over a period of years they will work much higher. We are just starting an upward trend in the number of persons of marriageable age in our population. The number of 20-year-olds will increase rapidly during the 1960's, and as a rule newly married couples rent before they buy. This will strengthen the rental market over the long pull. This upward rise, however, may be interrupted for a short period during the readjustment.

The blue line on the chart on page 117 shows building cost as typified by the fluctuations in the cost of building a standard six-room frame residence. This cost is now $18,419, which is a new all-time high in cost. While some of the materials entering into this figure have dropped, labor costs have increased to the point where the total overall cost is a few dollars higher than it was in the latter part of last year.

While building costs may show some drop during the readjustment period ahead, the fact that the Government will try many methods to halt the recession (all of them inflationary in their long-run effects) will prevent this drop from being great. Certainly, we will not experience the very radical drops which occurred in construction costs during the depression of the 1930's.

The behavior of our selling price index thus far in the readjustment period has been remarkable. In spite of the fact that the number of sales is down sharply, the selling prices of those places which have sold are holding at the same level which has been maintained consistently since the middle of last year. It is not very far below the all-time peak in the early months of 1956.

Undoubtedly, one factor which is holding up the selling price of existing housing is the very high cost of constructing new housing. Over the long pull the value of all existing buildings depends to a very large extent on the cost of replacement. This being the case, the outlook for considerably more inflation as a result of Congressional and Administration policies aimed at halting the recession will bring eventually much higher construction costs. These, in turn, will bring higher prices for existing buildings.

The center spread in this report shows a comparison of the fluctuations since 1917 of rent, wages, and the various major elements of the cost of living. The period 1921-38 has been taken as 100 on this chart, as this period included 9 boom years and 9 poor years. On this basis the most striking thing on the chart is the general pattern furnished by most items in the cost of living, with the divergent trends of wages gaining constantly on the cost of living, and rents,

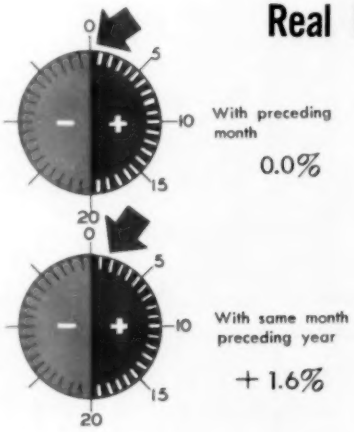
fuel, and light losing constantly. Clearly, the average individual in the United States, as wages have advanced faster than the cost of living, has been enabled to improve his standard of living. On the other hand, the average landlord has found that his receipts from rent did not increase fast enough to offset the drop in the purchasing power of our money.

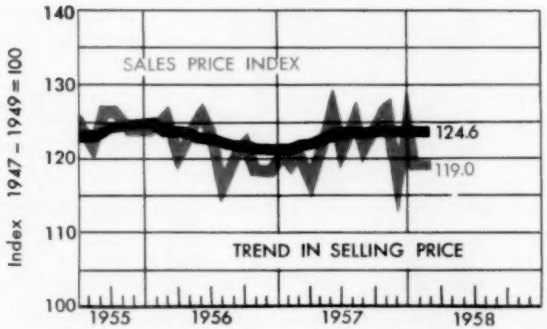
The behavior of the fuel and light line on this chart is a compliment to those who operate our public utilities. As these utilities have increased in size, their unit cost of production has gone down, until now one of the cheapest things the average family can afford is a greatly enlarged use of electrical energy.

Over a period of years we believe it is probable that residential rents will gain gradually on other elements of the cost of living, until 10 or 15 years hence the relationship between this index and the other indexes in the living cost figures will be similar to their relationships in the past. This would indicate that over the long pull rental properties still have much to offer in the way of eventual appreciation.

(cont. on page 123)

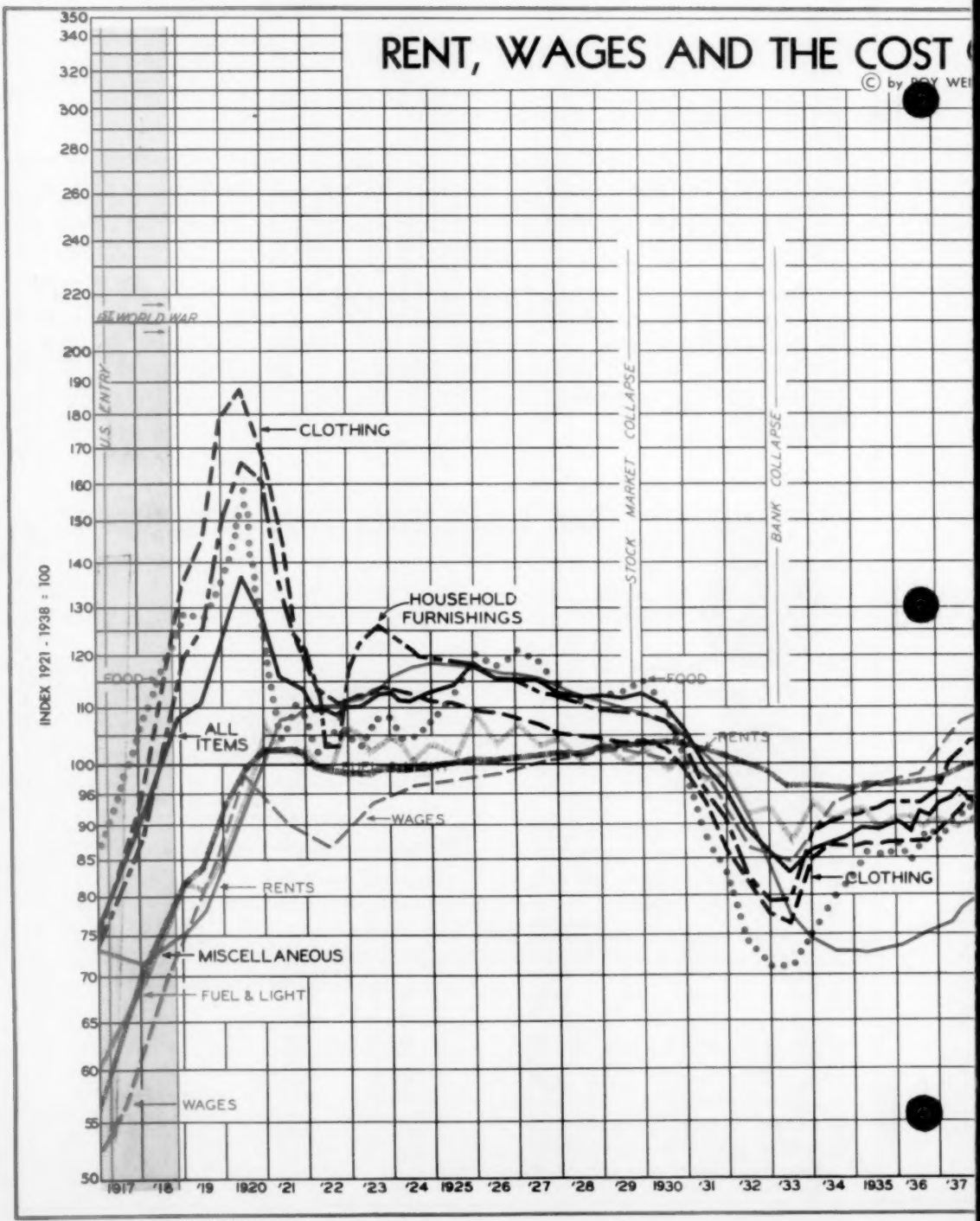
Real Estate Sales Price Comparisons

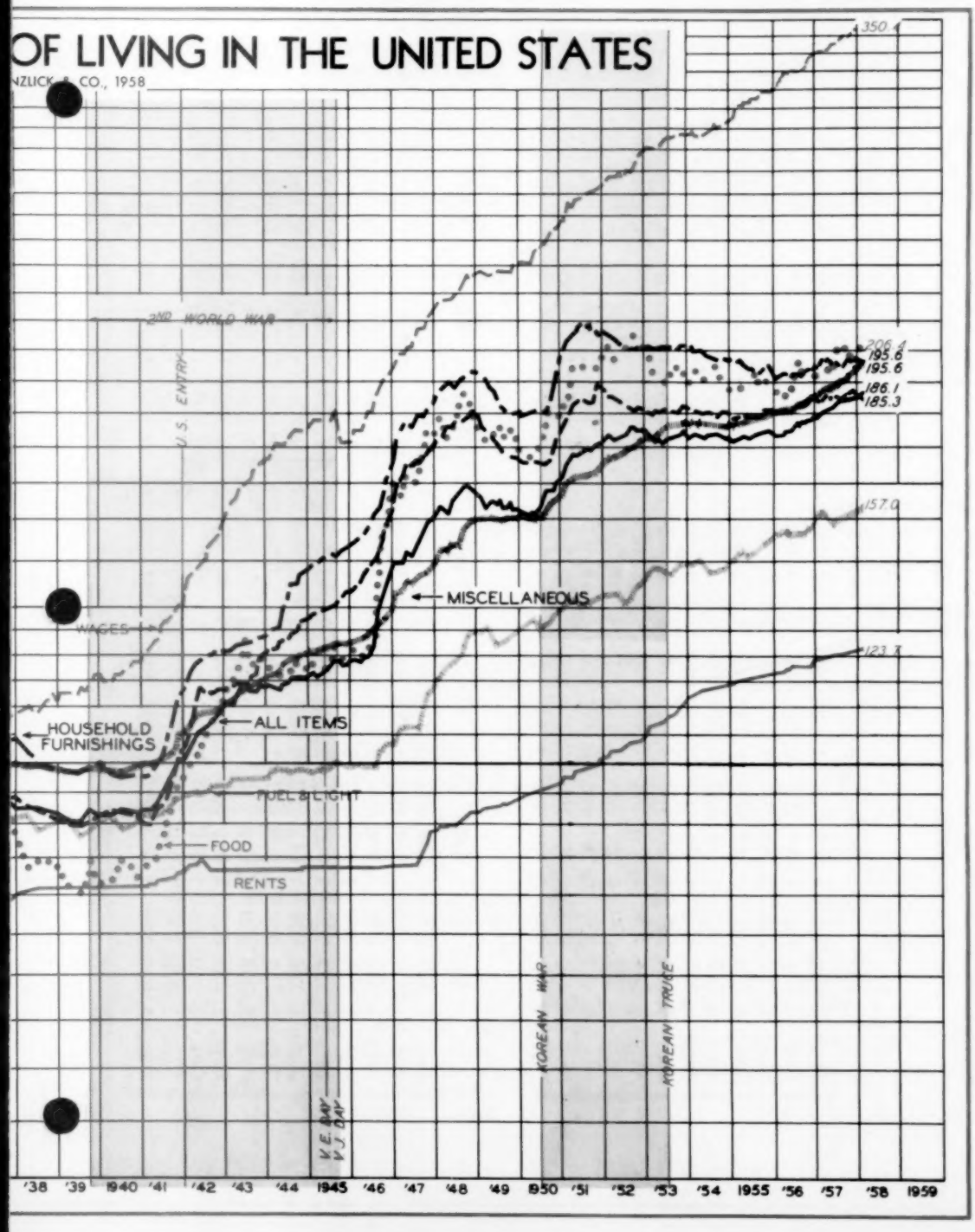




Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
1947-49	100.0	$12,000
1913	40.1	4,812
1918	34.1	4,092
Mar. '29	73.9	8,868
May '32	34.8	4,176
Apr. '34	44.8	5,376
July '37	40.1	4,812
Apr. '38	42.8	5,136
Mar. '41	40.1	4,812
Oct. '48	104.5	12,540
Oct. '53	119.7	14,360
Oct. '54	122.3	$14,680
Oct. '55	125.1	15,010
Oct. '56	121.9	14,630
Jan. '57	121.9	14,630
May '57	123.9	14,870
Oct. '57	124.6	14,950
Nov. '57	124.6	14,950
Dec. '57	124.6	14,950
Jan. '58	124.6	14,950
Feb. '58	124.6*	14,950*

* Preliminary.


RENT, WAGES AND THE COST
INDEX 1921 - 1938 = 100
1ST WORLD WAR
U.S. ENTRY
STOCK MARKET COLLAPSE
BANK COLLAPSE
CLOTHING
HOUSEHOLD FURNISHINGS
FOOD
ALL ITEMS
RENTS
WAGES
MISCELLANEOUS
FUEL & LIGHT
1917 '18 '19 1920 '21 '22 '23 '24 1925 '26 '27 '28 '29 1930 '31 '32 '33 '34 1935 '36 '37


OF LIVING IN THE UNITED STATES
NZLICK & CO., 1958
2ND WORLD WAR
U.S. ENTRY
WAGES
HOUSEHOLD FURNISHINGS
ALL ITEMS
MISCELLANEOUS
FUEL & LIGHT
FOOD
RENTS
KOREAN WAR
KOREAN TRUCE
V.E. DAY
V.J. DAY
350.4
206.4
195.6
195.6
186.1
185.3
157.0
123.7
'38 '39 1940 '41 '42 '43 '44 1945 '46 '47 '48 '49 1950 '51 '52 '53 '54 1955 '56 '57 '58 1959

COMPARISON OF NUMBER OF NEW PRIVATE NONFARM DWELLING UNITS WITH NUMBER OF NONFARM REAL ESTATE TRANSFERS

		1951	1952	1953	1954	1955	1956	1957	1958
Total Real Estate Transfers	Jan.	4,753,000	4,374,200	4,392,500	4,384,000	4,429,900	4,846,700	4,577,900	4,123,000
	Feb.	4,769,200	4,361,100	4,391,000	4,360,100	4,496,800	4,837,200	4,541,100	4,076,500
	Mar.	4,757,900	4,375,600	4,379,200	4,341,400	4,556,300	4,823,300	4,512,100	
	Apr.	4,733,700	4,388,700	4,387,800	4,318,000	4,603,800	4,801,800	4,476,500	
	May	4,712,100	4,384,800	4,399,400	4,296,800	4,653,500	4,775,900	4,441,500	
	June	4,678,400	4,376,800	4,416,000	4,272,200	4,704,400	4,750,400	4,404,000	
	July	4,634,200	4,367,900	4,431,300	4,257,800	4,750,200	4,728,100	4,364,800	
	Aug.	4,584,700	4,355,400	4,446,000	4,261,100	4,788,400	4,708,200	4,318,000	
	Sept.	4,526,600	4,359,800	4,445,800	4,276,800	4,820,800	4,681,000	4,282,600	
	Oct.	4,473,200	4,367,400	4,433,700	4,294,400	4,848,100	4,659,200	4,244,200	
	Nov.	4,428,900	4,378,200	4,418,800	4,320,700	4,862,500	4,633,000	4,207,200	
	Dec.	4,398,800	4,392,500	4,402,600	4,363,900	4,855,100	4,606,800	4,169,200	

		1951	1952	1953	1954	1955	1956	1957	1958
Total New Private Nonfarm Dwelling Units	Jan.	1,356,600	999,300	1,075,300	1,065,200	1,223,900	1,295,900	1,080,300	995,200
	Feb.	1,350,800	997,100	1,074,800	1,065,300	1,237,900	1,285,000	1,066,400	992,100
	Mar.	1,325,000	998,000	1,079,800	1,062,400	1,257,500	1,266,100	1,051,800	
	Apr.	1,286,000	1,002,700	1,090,200	1,061,500	1,281,500	1,245,500	1,033,300	
	May	1,237,900	1,006,100	1,094,800	1,063,300	1,309,200	1,221,200	1,019,400	
	June	1,184,800	1,012,700	1,099,900	1,073,900	1,328,000	1,194,400	1,009,300	
	July	1,131,900	1,027,000	1,095,200	1,090,400	1,337,000	1,171,500	1,004,200	
	Aug.	1,082,400	1,036,100	1,090,000	1,111,200	1,346,300	1,152,400	997,800	
	Sept.	1,061,600	1,040,000	1,082,900	1,132,500	1,346,500	1,129,500	997,300	
	Oct.	1,049,700	1,050,300	1,073,800	1,152,900	1,340,800	1,115,900	994,500	
	Nov.	1,039,200	1,060,400	1,071,400	1,176,300	1,325,900	1,104,500	993,200	
	Dec.	1,020,100	1,068,500	1,068,300	1,201,700	1,309,500	1,093,900	991,100	

(cont. from page 119)

The table to the left shows the general trends in real estate transfers since 1950 in comparison with the trends in the production of new private nonfarm dwelling units. The figures are all expressed on an annual basis and have been adjusted seasonally. It will be noticed that at the present time new housing starts are running approximately one-fourth of the number of transfers. The gradual swell in transfers during 1955, with the declining trend in 1956 and 1957, was due largely to the increase in the number of housing starts and the drop which followed.

If we study housing starts over a very long period, we will find that the peak which occurred in real estate activity in 1946 was due almost entirely to the sales of existing properties, as new building in the early part of 1946, when real estate activity was highest, was extremely low, and as building increased during the year, real estate activity declined. From 1950 on, however, transfers were very definitely affected by the sale of new properties.

From the table opposite it will be noticed that the total number of nonfarm real estate transfers is down about 10% in comparison with the corresponding month of a year ago, and down about 16% from the preceding year. It seems doubtful whether transfers in 1958 can equal the records of 1957, and they will most certainly fall considerably below 1956 or 1955.

Money has been definitely eased in the last few months, but up to the present time the average interest rate of recorded mortgages in 12 major cities of the United States is still increasing. The average rate has gone from 5.501% in July of last year to 5.840% in February of this year, and the increase has been consistent and regular each month. In using these figures it should be remembered that there is a lag between mortgage commitments and the recordings of mortgages. It is probable that this steady rise which has been going on for the last few years will slow down, and will be followed by some weakening in the recorded rates later on in the year. Up to the first of March, however, this had not occurred.

AVERAGE INTEREST RATE OF RECORDED MORTGAGES
IN 12 MAJOR CITIES OF THE UNITED STATES

Jan. '54	5.187%	Jan. '56	5.105%	Nov. '57	5.639%
Apr. '54	5.173	Apr. '56	5.157	Dec. '57	5.758
July '54	5.089	July '56	5.141		
Oct. '54	5.092	Oct. '56	5.229	Jan. '58	5.775
				Feb. '58	5.840
Jan. '55	5.045	Jan. '57	5.363		
Apr. '55	5.079	Apr. '57	5.507		
July '55	5.050	July '57	5.501		
Oct. '55	5.055	Oct. '57	5.602		

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
March 1958

SIX-ROOM BRICK HOUSE (FRAME INTERIOR)*
Content: 23,100 cubic feet
1,520 square feet
Cost 1939: $ 6,400
(27.7¢ per cubic foot; $ 4.21 per square foud)
Cost today: $19,092
(82.6¢ per cubic foot; $12.56 per square foot)
INCREASE OVER 1939 = 198.3%

For plans and specifications see page 23 of the Wenzlick Building Cost Manual.

FIVE-ROOM BRICK VENEER HOUSE*
Content: 24,910 cubic feet
1,165 square feet
Cost 1939: $ 5,440
(21.8¢ per cubic foot; $ 4.67 per square foud)
Cost today: $16,445
(66.0¢ per cubic foot; $14.12 per square foot)
INCREASE OVER 1939 = 202.3%

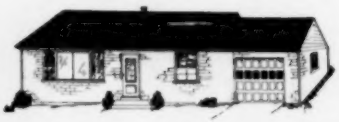
For plans and specifications see page 15 of the Wenzlick Building Cost Manual.

SIX-ROOM FRAME HOUSE*
Content: 24,288 cubic feet
1,650 square feet
Cost 1939: $ 5,671
(23.4¢ per cubic foot; $ 3.44 per square foud)
Cost today: $18,419
(75.8¢ per cubic foot; $11.16 per square foot)
INCREASE OVER 1939 = 224.8%

For plans and specifications see page 3 of the Wenzlick Building Cost Manual.

6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT
Content: 12,119 cubic feet
992 square feet
Cost 1939: $ 3,392
(28.0¢ per cubic foot; $ 3.42 per square foud)
Cost today: $10,335
(85.3¢ per cubic foot; $10.42 per square foot)
INCREASE OVER 1939 = 204.7%

For plans and specifications see page 31 of the Wenzlick Building Cost Manual.



STANDARD BRICK RANCH HOUSE
Content: 16,250 cubic feet
840 square feet
Attached garage - 200 square feet
Without garage - $12,787
(78.7¢ per cubic foot; $15.22 per square foud)
Garage - $951
($4.76 per square foot)

For plans and specifications see page 52 of the Wenzlick Building Cost Manual.

CONTEMPORARY FRAME RANCH HOUSE
(Dry Wall)
Content: 12,285 cubic feet
1,170 square feet
Carport - 320 square feet
Without carport - $13,106
($1.07 per cubic foot; $11.20 per square foud)
Carport - $612
($1.92 per square foot)

For plans and specifications see page 41 of the Wenzlick Building Cost Manual.

*Costs include full basement.